



# Ohio Legislative Service Commission

Jean J. Botomogno

## Fiscal Note & Local Impact Statement

**Bill:** H.B. 510 of the 130th G.A.

**Date:** May 27, 2014

**Status:** As Introduced

**Sponsor:** Rep. Brenner

**Local Impact Statement Procedure Required:** Yes

**Contents:** Decreases the commercial activity tax rate, reduces the varying minimum tax payments, and modifies the distribution of receipts

### State Fiscal Highlights

STATE FUND	FY 2015	FY 2016	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	Potential loss of \$79 million	Potential loss of \$206 million	Potential losses growing annually to \$514 million in FY 2019
Expenditures	- 0 -	- 0 -	- 0 -
<b>School District Tangible Property Tax Replacement Fund (Fund 7047)</b>			
Revenues	Potential gain of \$2 million	Potential gain of \$8 million	Potential gains of \$8 million in FY 2017 and \$4 million in FY 2018, and loss of \$4 million in FY 2019
Expenditures	- 0 -	- 0 -	- 0 -
<b>Local Government Tangible Property Tax Replacement Fund (Fund 7081)</b>			
Revenues	Potential gain of \$1 million	Potential gain of \$3 million	Potential gains of \$4 million in FY 2017 and \$2 million in FY 2018, and loss of \$2 million in FY 2019
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill gradually reduces the commercial activity tax (CAT) rate from 0.26% to 0.195% by FY 2019. Thus the bill decreases CAT receipts.
- The bill also modifies the current distribution of CAT receipts. Under current law, half of the receipts from the CAT are deposited in the state GRF, while the School District Tangible Property Tax Replacement Fund (Fund 7047) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081) receive 35% and 15%, respectively. Current law requires GRF subsidies if the amounts in the replacement funds are insufficient for required reimbursements to reimburse local governments. Under the revised distribution of CAT receipts proposed in the bill, the revenue decrease will be mostly borne by the GRF.

## Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2014	FY 2015	FUTURE YEARS
<b>Counties, municipalities, townships, and public libraries (LGF and PLF)</b>			
Revenues	Potential loss of \$3 million	Potential loss of \$7 million	Potential losses of \$11 million in FY 2017, \$14 million in FY 2018, and \$18 million in FY 2019
Expenditures	- 0 -	- 0 -	- 0 -
<b>School District Tangible Property Tax Replacement Fund (Fund 7047)</b>			
Revenues	Potential gain of \$2 million	Potential gain of \$8 million	Potential gains of \$8 million in FY 2017 and \$4 million in FY 2018, and loss of \$4 million in FY 2019
Expenditures	- 0 -	- 0 -	- 0 -
<b>Local Government Tangible Property Tax Replacement Fund (Fund 7081)</b>			
Revenues	Potential gain of \$1 million	Potential gain of \$3 million	Potential gains of \$4 million in FY 2017 and \$2 million in FY 2018, and loss of \$2 million in FY 2019
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Under permanent law, a share of GRF tax revenues is distributed to the LGF and PLF. Thus, any reduction to GRF tax receipts would also reduce the amount distributed to the LGF and PLF.
- A reduction in revenue from the CAT would, under current law, also decrease distributions to the School District Tangible Property Tax Replacement Fund (Fund 7047) and Local Government Tangible Property Tax Replacement Fund (Fund 7081). However, the bill's distribution ensures that most of the revenue change affects the GRF.

---

## Detailed Fiscal Analysis

The bill gradually reduces, over several years, the rate of the commercial activity tax (CAT) from 0.26% to 0.195% of taxable gross receipts in excess of \$1 million. The bill also lowers the minimum annual payments for CAT taxpayers. In addition, the bill also decreases by 25% the CAT due on a taxpayer's first \$1 million in taxable gross receipts for taxpayers that have more than \$1 million in taxable gross receipts. Under continuing law, businesses with less than \$150,000 in taxable gross receipts are excluded from paying the CAT. All other businesses owe a minimum tax on the first \$1 million in taxable gross receipts plus 0.26% of receipts in excess of \$1 million. Under current law, the minimum tax ranges from \$150 to \$2,600, depending on a business' total taxable gross receipts. Beginning in FY 2014, the bill reduces these amounts in equal proportions over five fiscal years by 25% so that they will range from \$112.50 to \$1,950 by fiscal year 2019.

Finally, the bill modifies the distribution of CAT revenue in permanent law, and generally decreases the share of CAT revenue to the GRF, while increasing shares to Fund 7047 and Fund 7081 as described in Table 1 below. Under current law, 50% of CAT receipts are deposited in the GRF, 35% in the School District Tangible Property Tax Replacement Fund (Fund 7047), and 15% in the Local Government Tangible Property Tax Replacement Fund (Fund 7081). Any reduction in CAT revenues would also reduce revenue to the two local replacement funds, though this reduction is approximately offset by the increase in shares as noted above. Current law requires a GRF subsidy if revenues to the local funds are insufficient for required reimbursements to local governments (for the elimination of the tangible personal property tax on general business).

<b>Table 1. New Revenue Distribution under H.B. 510</b>			
	<b>GRF</b>	<b>Fund 7047</b>	<b>Fund 7081</b>
FY 2014	50.0%	35.0%	15.0%
FY 2015	46.7%	37.3%	16.0%
FY 2016	43.3%	39.7%	17.0%
FY 2017	40.0%	42.0%	18.0%
FY 2018	36.7%	44.3%	19.0%
FY 2019	33.3%	46.7%	20.0%

## Fiscal impact

The bill decreases revenue from the CAT. Table 2 below provides the estimated change in revenue by year, on an all-funds basis,<sup>1</sup> from FY 2015 to FY 2019, when compared to current law. Most of the reduction in CAT revenue would be borne by the GRF. Under permanent law, a portion of GRF tax receipts is subsequently transferred to the Local Government Fund (LGF, 1.66%) and the Public Library Fund (PLF, 1.66%). Thus, the decrease in GRF tax revenue also decreases distributions to the LGF and the PLF.

	GRF	LGF/PLF	Fund 7047	Fund 7081	Total
FY 2015	-\$79	-\$3	\$2	\$1	-\$79
FY 2016	-\$206	-\$7	\$8	\$3	-\$202
FY 2017	-\$307	-\$11	\$8	\$4	-\$306
FY 2018	-\$409	-\$14	\$4	\$2	-\$417
FY 2019	-\$514	-\$18	-\$4	-\$2	-\$538

These estimates assume CAT revenue grows about 4% per year, the number of taxpayers by size of taxable gross receipts remain roughly the same, and the impact of exemptions and credits applied against the tax (relative to receipts) remains constant between FY 2014 and FY 2019. The Fiscal Note also assumes an effective date of the bill of July 1, 2014, affecting FY 2015 revenue only. Taxable gross receipts in the July to September calendar quarter, payable in the second quarter of FY 2015, would be affected by H.B. 510.

HB0510IN.docx/jc

---

<sup>1</sup> Revenue estimates do not incorporate changes implemented by H.B. 59, the operating budget bill, regarding the creation of the new Motor Fuel Receipts Tax which will replace the CAT applied to receipts from the sale or exchange of motor fuel. If taxable gross receipts from the sale of motor fuels are excluded, then the estimates in the table would be lower.